

12-1-2014

# Paragon or pariah? The consequences of being conspicuously rich in China's new economy

Michael Arthur FIRTH

*Lingnan University*

Xianjie HE

*Shanghai University of Finance and Economics, Shanghai*

Oliver M. RUI

*China Europe International Business School, Shanghai*

Tusheng XIAO

*Central University of Finance and Economics, Beijing*

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## Recommended Citation

Firth, M., He, X., Rui, O. M., & Xiao, T. (2014). Paragon or pariah? The consequences of being conspicuously rich in China's new economy. *Journal of Corporate Finance*, 29, 430-448. doi: 10.1016/j.jcorpfin.2014.09.004

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**Paragon or Pariah? The Consequences of Being Conspicuously Rich in  
China's New Economy**

**Michael Firth**

Lingnan University, Hong Kong, China

E-mail: [mafirth@ln.edu.hk](mailto:mafirth@ln.edu.hk)

**Xianjie He**

Shanghai University of Finance and Economics, Shanghai, China

E-mail: [he.xianjie@mail.shufe.edu.cn](mailto:he.xianjie@mail.shufe.edu.cn)

**Oliver M. Rui**

China Europe International Business School, Shanghai, China

E-mail: [oliver@ceibs.edu](mailto:oliver@ceibs.edu)

**Tusheng Xiao**

Central University of Finance and Economics, Beijing, China

E-mail: [tsh.xiao@aliyun.com](mailto:tsh.xiao@aliyun.com)

# **Paragon or Pariah? The Consequences of Being Conspicuously Rich in China's New Economy**

## **Abstract**

China's headlong rush into economic modernity has resulted in a new breed of very wealthy business people. In some cultures, wealth or the creation of wealth is lauded whereas in other cultures, vast wealth is viewed with suspicion and contempt. We argue that people in China, with its two thousand-year old Confucian ideology and its more recent experience of socialism, are more likely to react negatively to reports of conspicuous wealth. To test our arguments, we examine the reactions to and consequences of being included on the *Hurun Rich List*, an annual listing of the 100 richest business people in China. We find negative consequences to being on the *Hurun Rich List*: stock prices decline, government subsidies are reduced, and the named business people are more likely to be investigated, arrested, and charged by the authorities. Moreover, the listed entrepreneurs are more likely to conceal profits through negative earnings management after being listed. These effects are strongest in rent-seeking industries and when the entrepreneur or firm does not have a particularly favorable image. This is consistent with the fairness concept that suggests that the rich who benefit from political connections or rent-seeking are treated differently than those who rely on talent and innovation.

**Keywords:** Egalitarianism; Fairness; Market reaction; Legal risk; Rent seeking

**JEL classification:** A13; A14; D63; I31

# Paragon or Pariah? The Consequences of Being Conspicuously Rich in China's New Economy

## 1. Introduction

Most economic models are built on the assumption that all people are exclusively motivated by their material self-interest. A consequence of this is that a person's status or importance in society can be captured by their wealth. One radical departure from these models argues that the utility function of an individual includes some measure of fairness in income distribution. Alesina et al. (2004) find that inequality negatively affects individual utility even after controlling for individual income. Psychologists document that most individuals feel a strong need to believe that they live in a world that is fair. This concept of fairness in socio-economics is introduced in Alesina and Angeletos (2005). The concept holds that people should get what they deserve, and deserve what they get. It is supported by a variety of experimental and empirical evidence that shows that people are more willing to accept inequality of outcomes generated by what is perceived as effort or ability than inequality that is the outcome of luck, connections, or corruptions. This paper tests empirically how fairness shapes people's perception on inequality in China by studying the reaction of investors and governments to the publication of the *Hurun Rich List*,<sup>1</sup> an annual listing of China's 100 richest business people.

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<sup>1</sup> The *Hurun Report* was established in 1999 by Rupert Hoogewerf, the 'godfather' of the China Rich List. Today, the *Hurun Report* is widely recognized as the foremost authority in tracking the rapid changes of wealth among China's high net worth individuals. Hoogewerf was awarded New Weekly magazine's prestigious Person of the Year award in 2002 for his contribution to the understanding of wealth in China. In 2004, he was named one of the "100 Top Influencers" in China's Globalization by Global Entrepreneur magazine. On 8 September 2009, the Shanghai government presented Hoogewerf with the Magnolia Award, for his contribution to the development of the Shanghai economy.

We begin our investigation by looking at how investors react to the event of entrepreneurs being included in the annual *Hurun Rich List*. We find that, when the *Rich List* is announced, investors react negatively to the companies controlled by the listed entrepreneurs (where ‘listed’ means being named on the *Rich List*). The mean cumulative abnormal stock return (CAR) of the affiliated firms is -1.83% around the event window [-10, 10 days]. In addition to the short-term returns, we also estimate the buy-and-hold abnormal returns (BHAR) for 12 months, 24 months, and 36 months. We find that BHAR-12, BHAR-24, and BHAR-36 are -7.92%, -15.36%, and -18.53%, respectively.

The Chinese government has good reason to be mindful of public perception given its well-known fear of being overthrown in some form of social uprising. The government promotes the ideal of a harmonious society to ease social anger over the growing income inequalities and increasing cases of corruption that have accompanied the country’s economic reforms. In light of this, we examine whether the government is less likely to assist the entrepreneurs included in the *Rich List*, whether it monitors them more closely, and whether it becomes less tolerant of the “original sin” of being rich. We find that affiliated companies receive less government subsidies after the names of their ultimate controlling shareholders are published in the list. In addition, we find that the listed entrepreneurs are far more likely to be investigated, arrested and charged, compared with other private entrepreneurs in China. Moreover, we find that the listed entrepreneurs are more likely to conceal profits through negative earnings management after being listed.

We examine whether cross-sectional variations exist in the economic consequences of being included in the *Hurun Rich List*. According to an online opinion poll in 2010 by the People’s Daily, 91% of the population holds the view that the rich benefit from political connections, while only 16% think being rich has something to do with merit (Anderlini, 2010). The majority of ordinary Chinese people believe that official corruption and nepotism play key roles in making many business people exceptionally rich. A typical case is that of an entrepreneur building political connections or bribing officials to gain entry to a regulated industry, such as mining, public utilities, real estate, or the financial industry.

Huge profits can be gained in these industries. We find that the economic consequences of being included in the *Rich List* are more negative for entrepreneurs involved in these rent-seeking industries. However, we find that the negative consequences of appearing in the *Rich List* are mitigated if the named entrepreneurs share their wealth by making substantial donations to charitable causes.

Our paper contributes to the literature in the following ways. First, the paper contributes to the research on fairness initiated by Alesina and Angeletos (2005). They find that in the U.S., wealth and success are perceived as outcomes of individual talent, effort, and entrepreneurship, whereas in Europe larger roles are attributed to luck, corruption, and political connection. Furthermore, experimental and empirical findings show that people are more willing to accept inequality when the outcomes are perceived to be generated by effort or ability (the entrepreneurs are paragons of virtue) rather than luck or connections (the entrepreneurs are pariahs). Our finding that investors and the government react more negatively towards firms that are perceived to be owned by corrupt wealthy individuals lends support to this concept of fairness.

Second, our study expands the research on the effect of philanthropy (e.g., Navarro, 1988; William and Barrett, 2000; Barnett and Salomon, 2006; Wang and Qian, 2011). Wang and Qian (2011) find that corporate philanthropy is positively associated with firm financial performance in China. They argue that corporate philanthropy helps firms gain socio-political legitimacy, which enables them to earn positive shareholder responses. Our findings provide complementary evidence by showing that the firms controlled by *Rich List* entrepreneurs who give more charitable donations tend to experience less negative consequences.

Third, our paper adds to the research on the impact of culture, social norms, customs and religion on economic behavior (e.g., Stulz and Williamson, 2003; Guiso et al., 2006, 2008, 2009; Hong and Kacperzyk, 2009). Based on China's unique culture and socialist history, we provide new empirical evidence to support the argument that social norms (in

particular, Confucian ideology and socialist principles inculcated by the controlling Communist Party) play an important role in shaping economic behavior.

The rest of our paper proceeds as follows. In Section 2, we discuss the egalitarian culture in China and develop our research hypotheses. Section 3 describes the data and the sample, and section 4 reports the empirical results. Section 5 concludes the paper.

## **2. Prior Research and Hypotheses Development**

The concept of fairness is deeply rooted in Confucianism which is the basic system of belief in China and other countries in East and Southeast Asia. Unlike most Western countries, China does not have a dominant religion. However, the Confucian ideology has had a great influence in shaping China's social values and institutions (Allen et al., 2005). For thousands of years, classical Confucian texts, such as *The Four Books* and *The Five Classics*, have served as the "Bibles" of the educated class in China. Many of the basic values of Confucianism underpin the beliefs of ordinary people and over time have imperceptibly evolved into general social norms. Although, in very recent times, China has been increasingly influenced by foreign cultures, the Confucian ideology still remains at the core of the value system of the general public (Ralston et al., 1993; Ralston et al., 1999). Moreover, unlike in Western countries, the legal environment in China is relatively weak. Instead, Confucian values play a number of critical legal roles and, to a large extent, serve as the basis of China's legal environment (Greif and Tabellini, 2010).

One of the core concepts in Confucian culture is "The Doctrine of the Mean". Rather than advocating individual responsibility, this doctrine focuses on the collective will, or collectivism, which in economic terms means egalitarianism. As early as China's Spring and Autumn Period,<sup>2</sup> Confucius, the founder of Confucianism, proposed that the main

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<sup>2</sup> The Spring and Autumn Period is a period in Chinese history that roughly corresponds to the first half of the Eastern Zhou dynasty (from the second half of the 8<sup>th</sup> century B.C. to the first half of the 5<sup>th</sup> century B.C.). The name comes from the *Spring and Autumn Annals*, a chronicle of the state of Lu

economic concern is not “scarcity, but uneven distribution”. This principal has had a profound impact on Chinese and East Asian cultures, where the general public continues to believe in the need to “even out the circumstances of the poor and the rich”, and are reluctant to accept very uneven distributions of wealth caused by individual differences in endowments. In fact, the egalitarian nature of Confucianism is also an important reason why Communism and Socialism have been readily accepted at the grass roots level. After China implemented its socialist system in 1949, the public’s consciousness of egalitarianism was further strengthened.

The Communist Party saw capitalism as being based on the exploitation of workers. The communist ideologies include establishing a classless society, the removal of economic inequality among people, abolishing private ownership, and enabling the “full realization of human capital”. As a consequence of living under a more than fifty-year socialist political rule, people generally hold negative attitudes toward the rich because they view wealth as the outcome of the exploitation of labor. Alesina and Fuchs-Schündeln (2007) use the separation and reunification of Germany as a natural experiment to examine how Communism affects preferences. They find that those who lived in the former East Germany more strongly prefer redistribution after reunification. For more than thirty years, China has been moving toward a fully fledged market-based economy. The rapid development of the Chinese economy has led to a more favorable public perception of the need for incentives and wealth creation (Djankov et al., 2006a, b). However, the rank and file of the ordinary people is still heavily influenced by the “egalitarian” legacy of the old socialist days and the enduring appeal of Confucianism.

The concept of social class within the Confucian culture has always been critical of businessmen. As an old saying goes, “all business people are profiteers” and this remains the general impression that the public holds of business people. The economic policy of

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between 722 and 479 B.C., which is traditionally associated with Confucius. The period itself lasted from 770 to 476 B.C.



“laying stress on agriculture and restraining trade” has been instituted numerous times in Chinese history. In short, egalitarian culture is deeply rooted in the minds and souls of the general public.

The “hidden rich” is a relatively normal phenomenon among wealthy Chinese people due to these egalitarian values. The rich are reluctant to disclose their wealth to the public and fear that it will cause social resentment. In contrast, business people in some other countries are not ashamed to advertise their wealth and some of them cultivate a distinct celebrity image. Indeed, some people are offended if they do not appear high up in the rankings of the rich.<sup>3</sup> In some societies, rich people, especially the first or second generation of being rich, are upheld as role models and as paragons of hard work, ingenuity, and business acumen that has helped society at large.

China’s wealthy are newly minted. The general public had little knowledge about extreme wealth in China before the publication of the *Hurun Rich List*, which has enabled the public to become better acquainted with Chinese billionaires as a group.<sup>4</sup> In addition to disclosing the names of Chinese billionaires and ranking their wealth, the *Rich List* also publishes information related to the major companies controlled by the billionaires and the industries the companies are involved in. The list also includes personal details of the wealthy, such as their age, birth place and educational background. As a result, the list has become an important information source for the public to gain insights into the wealthy class and how they built their fortunes.

Influenced by an egalitarian culture, the public in China are fascinated by the lifestyles of billionaires and apply higher moral standards to their behavior. Chinese entrepreneurs

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<sup>3</sup> In 2013, Prince Alwaleed Bin Talal Alsaud of Saudi Arabia complained publicly about his ‘low’ ranking in Forbes Magazine’s list of richest billionaires. Forbes’ estimate of his net worth was \$20 billion while he claims it was \$30 billion. His complaints were made to the media at large and were widely reported.

<sup>4</sup> The *Hurun Rich List* was originally compiled in collaboration with *Forbes*. It started its own independent operation in 2004 and has since become the most well-known Rich List in China.

accumulated their wealth during China's transition from a centrally-planned to a market driven economy. There is a widespread belief that these entrepreneurs and their companies must have committed many "original sins" just like their counterparts in the West did a century ago (Watkins, 1907; Josephson, 1962; Rockoff, 2008). Furthermore, as the rich become richer, serious resentment against them is developing. Specifically, the media are more inclined to dig out and report negative news about wealthy entrepreneurs and their companies (Hong, 2004). Redemption stories, such as those about philanthropy, are in relatively short supply. The growing anger of the public at what they see as undeserved wealth accumulation has forced the government to monitor those on the *Rich List* more closely.

The above mentioned responses of the public, media, and government have placed the entrepreneurs included on the *Rich List* and their companies under a rather unfavorable social microscope. Given China's cultural heritage, allied to its recent inculcation of socialist principles, we believe investors are likely to regard inclusion on the *Rich List* as negative news. Therefore, we expect that investors will react negatively to the affiliated companies when the list is announced. This effect is expected to be long-standing.

The decentralization of the Chinese economy in recent decades has resulted in competition between local governments (Qian and Weingast, 1997). This inter-jurisdictional competition provides incentives for regional governments to compete in reforms to boost local economic growth and employment. In addition, the career paths of regional government officials are linked with regional economic performance, which is reflected in indicators such as the GDP growth rate (Li and Zhou, 2005). The development of the private sector has become one of the main drivers of inter-jurisdictional competition among local governments. Local officials have strong career incentives to offer policies to support the private sector. Government subsidies have become a feasible and effective way for local governments to exert influence over firms. The extent of the subsidies given to a firm depends in part on the political connections of its owner. Furthermore, the granting of subsidies may depend on kickbacks and other types of bribery and corruption. In order to

allay the public's fear that the rich business people have benefitted from the largesse of government grants and subsidies, the local government may reduce the level of subsidies given to firms affiliated with entrepreneurs if and when the entrepreneurs appear on the *Rich List*. Here, the authorities seek to avoid the appearance of favoritism towards the rich. Furthermore, as the media are more inclined to dig out and report negative news about wealthy entrepreneurs and their companies, local officials may relent under this pressure and monitor the named *Rich List* entrepreneurs more closely and enforce government regulations against them more strictly. This suggests that the authorities may single out *Rich List* business people for investigation of economic crimes. Thus, we expect that those people appearing on the *Rich List* will be more likely to be investigated, arrested, and charged by the government, regardless of the merits of the case. This will inevitably have negative carry over effects to the listed firms they control. Therefore, we expect that, after the publication of the *Hurun Rich List*, the affiliated companies will be less likely to receive government subsidies, and those on the list will be far more likely to be investigated, arrested and charged by the government for economic crimes. One response of an entrepreneur to the adverse publicity associated with appearing on the *Rich List* is to engage in earnings management in the companies they control whereby the reported profitability is reduced.

In principle, there are two kinds of inequality, justifiable inequality and unjustifiable inequality. Justifiable inequality is induced by variation in talent and effort, while unjustifiable inequality is induced by variation in corruption and rent seeking. Alesina and Angeletos (2005) show that people are more willing to accept inequality when the outcomes are perceived to have been generated by hard work or effort, rather than by luck or connections or corruption. While it is difficult for the public to distinguish between entrepreneurs with talent, creativity, and hard work and those who rely on patronage, political connections, and corruption, we believe the latter tend to work in regulated (or rent-seeking) industries. Here, the privatized industries are sold to, or placed in the hands of, politically connected business people. The government tends to ensure these industries are

profitable and so the business people's investments in the firms can grow to large fortunes. We would expect that investors are more resentful towards wealthy entrepreneurs who make their fortunes in rent-seeking industries.

Wealthy entrepreneurs can engage in strategic philanthropy, which negates or at least helps reduce any negative public image they may have incurred from being conspicuously rich. The goodwill created by individual involvement in charitable causes can enhance the image, reputation, and customer loyalty of the firms they control, and lead to more lenient treatment by regulators or government officials. Navarro (1988) shows that corporate contributions represent a form of advertising, as firms that spend more on advertising also tend to give more to charity. Increasing charitable contributions can increase the value of the giver's moral capital. William and Barrett (2000) find that the decline in reputation associated with criminal activity is reduced for those firms more heavily involved in corporate philanthropy. An individual's or a firm's investments in philanthropy can help to maintain valuable goodwill that offsets or ameliorates negative publicity (Barnett and Salomon, 2006). This is especially likely for these *Rich List* entrepreneurs in an environment of resentment against the rich. We would expect that investors and the government tend to react less negatively towards those firms that engage in strategic philanthropy to enhance their reputation and image.

### **3. Data and Sample**

We use the listed companies controlled by the top 100 entrepreneurs on the annual *Hurun Rich List*,<sup>5</sup> for each year from 1999 to 2009, as our initial sample. In the cases where an entrepreneur is on the list for many years, we regard his or her first-time listing as

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<sup>5</sup> The *Hurun Report* was established in 1999. It is the first and the most influential rank for billionaires in China. There were 50 billionaires on the list in 1999 and 2000. The number gradually increased to 100 from 2001 to 2004, 400, 500 and 800 from 2005 to 2007 and finally reached 1000 in 2008 and 2009. We include the top 100 billionaires in our analyses. We obtain the similar results when we focus our sample on the top 50 billionaires.

the event year. The names of the companies directly or indirectly controlled by the entrepreneurs are hand collected by comparing the ultimate shareholder data disclosed in the annual report and the names on the *Rich List*. In addition, financial and stock price data of the companies listed on the Shanghai or Shenzhen Stock Exchange in China are collected from the China Stock Market and Accounting Research (CSMAR) database.

Initially, we identify 114 companies directly or indirectly controlled by the top 100 entrepreneurs included in the *Rich List*. We apply the following process to refine our sample. First, we exclude 11 companies with insufficient financial information on the PRE- and POST- Listed periods in the CSMAR database. Next, we exclude 4 companies with insufficient or missing return data during the event period.<sup>6</sup> Finally, we drop 2 firms in the financial industry. Our final sample consists of 97 companies. The major shareholders of these firms are individuals. To reduce the effect of potential outliers, we winsorize all continuous variables at the 1<sup>st</sup> and 99<sup>th</sup> percentiles. Panel A of Table 1 illustrates our sample selection process. Panel B reports the distribution of the sample by year. It shows that the number of firms is evenly distributed over time except for 2001 and 2003 when there are more entrepreneurs and their firms appearing on the *Hurun Rich List* for the first time.<sup>7</sup>

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Insert Table 1 here

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## 4. Empirical Results

### 4.1 Market Reaction to the Announcement of the *Rich List*

We investigate investors' reactions to the publication of the *Rich List* by looking at the stock price changes of the companies controlled by the listed billionaires during the period

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<sup>6</sup> We require that companies must have return data during the event period and for at least 90 of 200 trading days during the estimation period.

<sup>7</sup> There are more firms appearing in these years because the number of *Rich List* entrepreneurs is expanded from 50 to 100 billionaires over the period 2001 to 2004.

when the *Rich List* is published. To be specific, we set the first day following the announcement of the *Rich List* as the event date (day 0),<sup>8</sup> and calculate abnormal returns (AR) around the event date using the standard market model. The market return is the value-weighted index of the Shanghai and Shenzhen Stock Exchanges, and the estimation period is 200 days before day -10 (i.e., day -210 to day -11).

Panel A of Table 2 reports the descriptive statistics of the CARs. We find that the mean CARs for the treatment sample are significantly negative at -0.585% (window -1, 1), -0.772% (-2, 2), and -1.825% (-10, 10), respectively. See Figure 1. The parametric *t*-test preliminary supports our prediction that the CARs for the treatment sample are negative. This indicates that investors regard entrepreneurs being included on the *Rich List* as bad news. Nonetheless, these results do not control for cross-correlation among residuals resulting from event date clustering and thus should be interpreted with caution.

As we have a common event date for each year, we also test for a significant market reaction using Schipper and Thompson (1983) procedures that control for cross-sectional dependence in residuals. Specifically, we estimate the following Model (1) by ordinary least squares:

$$R_{p,t} = \alpha + \beta R_{m,t} + \sum \delta_k Event_k + \varepsilon_t \quad (1)$$

In the above model,  $R_p$  equals the daily return to an equally-weighted portfolio of the treatment sample.  $R_m$  is the daily market return (we proxy return by the value-weighted index of the Shanghai and Shenzhen Stock Exchanges).  $Event_k$  is a dummy variable equal to one for the days in the three event windows, and zero for all other days in the estimation period. The estimation period runs from January 1, 1999 to December 31, 2009, including 2,654 trading days. The coefficient  $\delta_k$  represents the “shift in mean excess return” associated with the event (Schipper and Thompson, 1983).

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<sup>8</sup> We select the first day following the announcement of the *Rich List* as the event date because the major newspapers in China usually report the *Rich List* on that day. As a sensitivity test, we also redo our analyses with the announcement day as the event date. The results are qualitatively the same.

Panel B reports the Schipper and Thompson (1983) regression results. We find a significantly negative event-day effect for the treatment sample over windows (-1, 1) and (-10, 10), with  $t$ -statistics of -2.27 and -3.83, respectively. Thus, the significantly negative market reaction to the announcement of the *Rich List* is robust to a control for cross-correlation among residuals. This negative market reaction is predicated on the belief that a listing in the *Rich List* report will generate negative goodwill in the minds of the population and investors may shun the affiliated stock and customers may disappear leading to a loss of market share. Furthermore, the firms will receive less favor from the government and law enforcement will be tightened against the listed entrepreneurs.

In addition to the short-term returns, we also estimate the BHARs for 12 months, 24 months, and 36 months. The results are reported in Panel C of Table 2. We find that BHAR-12, BHAR-24, and BHAR-36 are -7.92%, -15.36%, and -18.53%, respectively. Thus, firms that are controlled by entrepreneurs who appear on the *Rich List* suffer long term underperformance in the stock market.

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Insert Table 2 here  
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#### ***4.2 Differences-in-Differences Propensity Score Matching Methodology***

We use a differences-in-differences propensity score matching (DID-PSM) approach to identify the dimensions of the economic consequences of being on the *Rich List* by comparing inter-temporal differences for the treatment (controlled by listed entrepreneurs) and the control (controlled by non-listed entrepreneurs) samples (Blundell and Costa Dias, 2000; Görg and Strobl, 2007).<sup>9</sup> On the one hand, this design allows us to mitigate selection bias due to observables imposing a linear relation between the observables (i.e., covariates)

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<sup>9</sup> As argued by Blundell and Costa Dias (2000), a combination of the propensity score matching with the difference-in-differences analysis is likely to improve considerably the accuracy of an evaluation study.

and the outcomes of interest<sup>10</sup>, and, on the other hand, we can control for common trends of macro variables on both groups.

Specifically, our DID-PSM design is implemented in the following steps. First, for each company controlled by the *Rich List* entrepreneurs in our sample period, we identify the first year the entrepreneur appears on *Rich List* (year T, the listing year). We then select all observations for each company in the three years prior to the listing year (i.e., years T-1, T-2, and T-3), which comprise our PRE-Listed sub-sample, and select all available observations for the three years subsequent to the listing year for each company which comprise our POST-Listed sub-sample.<sup>11</sup> The choice of a 3-year window for the PRE-Listed and POST-Listed periods is somewhat arbitrary and reflects a tradeoff between selecting a window long enough to measure the implications of being included on the *Rich List*, yet short enough to avoid picking up other potential economic events common to all sample companies.

We utilize a control sample to help ensure that any inter-temporal change in long-term market performance, government subsidy, entrepreneurs' legal risk, and earnings management that we document for the treatment sample are not common to all companies over the sample period. To identify the control sample, we use a PSM procedure (Rosenbaum and Rubin, 1983; Armstrong et al., 2010; McInnis and Collins, 2011). For each listing year in our treatment sample, we select a matching company (controlled by a non-listed entrepreneur) in the same year and industry that has the closest propensity score. The propensity-score is the predicted value from a logit model of the probability that a company's ultimate shareholder will be included on the *Rich List* conditional on observable

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<sup>10</sup> Although the DID-PSM approach allows us to purge all time-invariant unobserved factors, this approach still has a potential problem of time-varying unobserved factors that may be correlated with being listed and the outcomes of interest. Unfortunately, we cannot completely rule out this possibility.

<sup>11</sup> As the *Hurun Rich List* is published in October or November every year, we exclude the listing year to make our sample cleaner. However, the results are qualitatively similar if we re-define the POST-Listed period as the listing and subsequent two years.



features (See the Appendix for more details). To maintain the statistical independence of our tests, we employ a nearest neighbor matching algorithm without replacement (i.e., allow a matching company to be used only once). Once a matching company is selected for the control sample, it is removed from the matching pool, and we implement the matching procedure by listing year (Caliendo and Kopeinig, 2008; Armstrong et al., 2010). Once we obtain propensity score matches, we then look three years forward and back to construct pseudo PRE-Listed and POST-Listed periods for each control company. Although control sample have no true “listing year” like our treatment sample, this process yields a control sample with PRE-Listed and POST-Listed periods that have the same dispersion in calendar time to the periods that comprise our treatment sample. Finally, our treatment sample consists of 553 firm-year observations, including 263 observations for the PRE-Listed period, and 290 observations for the POST-period, and the control sample is constructed in the same way.

Table 3 presents descriptive statistics for the treatment and control samples. We report both a parametric *t*-test of the difference in means and a Wilcoxon test of the difference between the two samples. The *p*-values indicate that both the means and medians of *Leverage*, *Loss*, and *Issue* between the two samples are not significant. While the means and medians of *Size* and *CtrlRight* are statistically different, the economic differences between the treatment and control samples are very small.

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Insert Table 3 here

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### ***4.3 Long-term Market Performance***

In addition to the short-term market reaction, we explore the effects of being included on the *Rich List* has on the long-term value of affiliated companies by employing the following basic model:

$$\begin{aligned}
Tobin's Q_{i,t} = & \alpha_0 + \alpha_1 Fortune_{i,t} + \alpha_2 Listed_{i,t} + \alpha_3 Fortune_{i,t} \times Listed_{i,t} \\
& + \alpha_4 Size_{i,t} + \alpha_5 Leverage_{i,t} + \alpha_6 Growth_{i,t} + \alpha_7 ROA_{i,t} + \alpha_8 CtrlRight_{i,t} + \varepsilon_{i,t}
\end{aligned} \tag{2}$$

Following Doidge et al. (2004), we compute *Tobin's Q* as [(Total Assets – Book Equity) + Market Value of Equity] / Total Assets, which is used to measure firm value. *Fortune* is an indicator variable set to one if the firm belongs to the treatment sample, and zero if it belongs to the control sample. *Listed* is an indicator variable that equals one for the “POST-Listed” period (years T+1, T+2, and T+3), and zero for the “PRE-Listed” period (years T-1, T-2, and T-3). *Size* is the natural logarithm of the company’s total assets at the end of the fiscal year. *Leverage* is the debt ratio, which is defined as the ratio of total debt divided by total assets at the end of the fiscal year. *Growth* is the firm’s two-year sales growth rate, which is defined as the geometric mean of sales growth in the previous two years. *ROA* is return on assets calculated as net income scaled by total assets at the end of the fiscal year. *CtrlRight* is the ownership rights owned by the controlling shareholders. In addition, we also include year and industry dummies to control for time and industry-specific factors.

Table 4 presents the results for the effects of the *Rich List* on the long-term market performance. Specifically, Panel A reports the descriptive statistics of *Tobin's Q* including PRE-Listed and POST-Listed period comparisons. The mean of *Tobin's Q* is significantly lower in the POST-Listed period than in the PRE-Listed period for the treatment sample (with a *p*-value of <0.0001), while it is insignificant for the control sample (with a *p*-value of 0.4393). The tests in Panel A provide preliminary support that firm value decreases after being listed on the *Rich List*.

Panel B reports the regression results. Following our specification in Model (2), we find that the coefficient on the *Fortune*×*Listed* is significantly negative no matter whether we include the control variables or not (with coefficients of -0.5635 and -0.3365, respectively, and *t*-statistics of -3.70 and -2.67, respectively), suggesting that the detrimental effect of the *Rich List* on the value of affiliated companies is long-term and permanent. Most of the signs on the coefficients on the control variables are either

consistent with our predictions or are insignificant. Overall, our findings are consistent with the view that the egalitarian social norms of the Chinese people have an impact on how they view great personal wealth of business people and how this is translated to stock market values of the firms controlled by these entrepreneurs.

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Insert Table 4 here

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#### ***4.4 Government Subsidy***

Government subsidies are a direct and convenient way for the government to assist firms. The accounting standard “Accounting System for Business Enterprises”, released by the Ministry of Finance in 2001, defines a subsidy as the actual revenue from a subsidy received from the government, such as value-added tax rebates, periodic quota subsidies calculated based on sales, and other types of state financial support. Subsidies are listed before the pre-tax profits in a firm’s profit and loss (income) statement. Under the influence of China’s egalitarian culture and public pressure, the government is less likely to help the companies controlled by the listed entrepreneurs. We use the following Model (3) to test the hypothesis that firms receive less government subsidies after their ultimate controllers are listed on the *Rich List*:

$$\begin{aligned}
 Subsidy_{i,t} = & \alpha_0 + \alpha_1 Fortune_{i,t} + \alpha_2 Listed_{i,t} + \alpha_3 Fortune_{i,t} \times Listed_{i,t} \\
 & + \alpha_4 Size_{i,t} + \alpha_5 Leverage_{i,t} + \alpha_6 Growth_{i,t} + \alpha_7 ROA_{i,t} + \alpha_8 CtrlRight_{i,t} \\
 & + \alpha_9 Loss_{i,t} + \alpha_{10} Issue_{i,t} + \alpha_{11} FisDef_{i,t} + \alpha_{12} Lag(Subsidy)_{i,t} + \varepsilon_{i,t}
 \end{aligned} \tag{3}$$

*Subsidy* measures government assistance to a company, defined as the subsidy received from the government scaled by total sales ( $\times 100$ ). Similar to Model (2), we control for firm size, leverage, sales growth, profitability, and controlling shareholders’ ownership in the model. These variables are defined as before. Moreover, Chen et al. (2008) find that local governments provide subsidies to help firms boost their earnings above the regulatory threshold for rights offerings and delisting. Therefore, we also add two dummy variables,

*Loss* and *Issue*, to the basic model to control for these two earnings management motivations. *Loss* is a dummy variable, which equals one if a firm's ROE is in the range of [0, 1%], and zero otherwise. The regulatory body uses bright-line rules to screen firms for initial public offerings, rights offerings, seasoned equity offerings, and delisting, which creates an incentive for earnings management (Aharony et al., 2000; Chen and Yuan, 2004). *Issue* equals one when a firm's ROE just qualifies it for a rights issue (10-11% for 1996-1998; 6-7% or 10-11% for 1999-2000; 6-7% for 2001; 6-7% or 10-11% for 2002-2005; 6-7% afterwards), and zero otherwise.<sup>12</sup> *FisDef* is defined as the per capita fiscal deficit in the region, which controls for the budget tightness of the local government, as the wealthier local governments tend to be more generous (Chen et al., 2008). *Lag(Subsidy)* is the lag of government subsidy. In addition, we also include year and industry dummies to control for time and industry-specific factors.

Table 5 presents the results for the effects of the *Rich List* on the government subsidy. Specifically, Panel A reports the descriptive statistics of *Subsidy* including PRE-Listed and POST-Listed period comparisons. The mean of *Subsidy* that firms receive from the

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<sup>12</sup> On January 24, 1996, the Chinese Securities Regulatory Commission (CSRC) issued a guideline [1996, no.17] requiring rights offerings companies to satisfy the following criteria: "a firm is required to achieve a minimum return on equity (ROE) of 10% in each of the previous three fiscal years". On March 17, 1999, the CSRC issued a guideline [1999, no.12] requiring rights offerings companies to satisfy the following criteria: "a firm is required to achieve a threshold of a three-year average ROE of 10%, and a minimum ROE of 6% in each of the previous three fiscal years". On March 28, 2001, the CSRC issued a guideline [2001, no.43] requiring rights offerings companies to satisfy the following criteria: "a firm is required to achieve a threshold of a three-year average weighted ROE of 6% in the previous three fiscal years, and the current year weighted ROE of 6% after the issuance". On July 24, 2002, the CSRC issued a guideline [2002, no.55] requiring seasoned equity offerings companies to satisfy the following criteria: "a firm is required to achieve a threshold of a three-year average ROE of 10% in the previous three fiscal years, and a minimum ROE of 10% in the latest fiscal year". On April 26, 2006, the CSRC issued a further guideline [2006, no.30] requiring seasoned equity offerings companies to satisfy the following criteria: "a firm is required to achieve a threshold of a three-year average weighted ROE of 6% in the previous three fiscal years".

government is significantly lower in the POST-Listed period than in the PRE-Listed period for the treatment sample (with a  $p$ -value of 0.0757), while it increases slightly (insignificant) for the control sample. Panel B reports the regression results. In column (1), we estimate Model (3) without control variables and the results show that the coefficient on the  $Fortune \times Listed$  is significantly negative (with a coefficient of -0.3787 and a  $t$ -statistic of -2.14). In column (2), we re-estimate Model (3) including the control variables and find that the coefficient on  $Fortune \times Listed$  is still significantly negative (with a coefficient of -0.3275 and a  $t$ -statistic of -2.12). Overall, our results indicate that firms receive less government subsidies after their ultimate controlling shareholders are listed on the *Rich List*, even after controlling for the other relevant factors.

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Insert Table 5 here

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#### **4.5 Legal Risk**

As discussed earlier, as a result of the influence of the egalitarian culture and public pressure, the government may monitor billionaires on the *Rich List* more closely. To test this hypothesis, we first hand collect the data on whether the entrepreneurs of private firms are investigated, arrested or charged during the period from 1999 to 2012, by searching the following keywords “name of the entrepreneur plus arrested”, “name of the entrepreneur plus detention”, “name of the entrepreneur plus investigation” and “name of the entrepreneur plus penalty” from “www.google.com” and “www.baidu.com”.<sup>13</sup> Then, we conduct an entrepreneur-level test employing the following Model (4) to examine whether entrepreneurs are more likely to be investigated, arrested or charged after being included on

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<sup>13</sup> Baidu is a Chinese search engine for websites, audio files, and images. It is called “Google in China”. Baidu offers 57 search and community services. In April 2010, Baidu ranked 7th overall in Alexa’s internet rankings. In December 2007, Baidu became the first Chinese company to be included in the NASDAQ-100 index. Baidu provides an index of over 740 million web pages, 80 million images, and 10 million multimedia files.

the *Rich List*, compared to the control sample. There are no cases of an entrepreneur being under investigation before them being included on the rich list (whereas there are cases of entrepreneurs in the control sample being under investigation). Therefore, it will bias for our results if we conduct a difference-in-difference analysis for litigation. To avoid this problem, we compare the probability of litigation between the entrepreneur on the *Rich List* and the entrepreneur of other private firms (control sample) for the one-year, three-years and five-years subsequent to the listing year.<sup>14</sup> Thus the data are at the firm level rather than at the firm-year level. Our model is:

$$\begin{aligned} Prob(Litigation_{i,t+j} = 1) = & \beta_0 + \beta_1 Fortune_{i,t} + \beta_2 Size_{i,t} + \beta_3 Leverage_{i,t} \\ & + \beta_4 Growth_{i,t} + \beta_5 ROA_{i,t} + \beta_6 CtrlRight_{i,t} + \varepsilon_{i,t} \end{aligned} \quad (4)$$

Where  $Litigation_{i,t+j}$  is a dummy variable, which equals one if the entrepreneur  $i$  is investigated, arrested or charged over the next  $j$  years after being included on the *Rich List* ( $j=1, 3, 5$ , respectively), and zero otherwise. *Fortune* is an indicator variable set to one if the firm belongs to the treatment sample, and zero if it is belong to the control sample. All other variables are as previously defined, and independent variables are measured in the listing year (the T year). We expect the treatment sample will suffer higher legal risk. Accordingly, we expect  $\beta_1$  to be positive for treatment sample.

Table 6 presents the results for the effects of the *Rich List* on the entrepreneurs' legal risk. Specifically, Panel A reports the descriptive statistics of entrepreneur-level litigations for the one-year, three-years, and five-years subsequent to the listing year, respectively. We find that the cumulative probability of the treatment sample to be investigated, arrested, or charged over the next one-year, three-years, and five-years are 2.06%, 19.59%, and 24.74%, respectively, while the probabilities of the control sample to be investigated are 1.03%, 2.06%, 5.15%, respectively. The parametric difference of means  $t$ -test rejects the null hypothesis that the two groups have the same means for the post three-years and five-years (with  $p$ -values of 0.0001). Panel B reports the Logit regression results. We find that the

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<sup>14</sup> The results are even more stronger if we using difference-in-difference analysis for this test.

coefficients on *Fortune* are significantly positive across three post periods (with coefficients of 1.84, 3.68, and 2.62, respectively, and *z*-statistics of 2.24, 2.67, and 3.44, respectively). The findings suggest that entrepreneurs are more likely to be investigated, arrested or charged after being included on the *Rich List* compared to the control sample.

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Insert Table 6 here

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#### 4.6 Earnings Management

In regard to the entrepreneurs' responses to being included on the *Rich List*, we explore whether they conceal profits through negative earnings management after being listed. Following Kothari et al. (2005), we use a performance-matched modified cross-sectional Jones model to estimate discretionary accruals and thus to measure the extent of earnings management.

$$\frac{TA_{it}}{Asset_{i,t-1}} = \hat{\alpha}_0 + \hat{\alpha}_1 \frac{1}{Asset_{i,t-1}} + \hat{\alpha}_2 \frac{(\Delta Rev_{it} - \Delta AR_{it})}{Asset_{i,t-1}} + \hat{\alpha}_3 \frac{PPE_{it}}{Asset_{i,t-1}} + \varepsilon_{it} \quad (5)$$

$TA_{it}$  represents the total accruals, defined as the difference between net income and net operating cash flow.  $Asset_{t-1}$  is total assets at the end of year,  $\Delta Rev_{it}$  is the change in revenue from the preceding year,  $\Delta AR_{it}$  is the change in accounts receivable from the preceding year, and  $PPE_{it}$  is the net value of property, plant and equipment. For each year, we estimate Model (5) for every industry classified by the CSRC code, and use the residuals from the regression as the Modified-Jones model discretionary accruals (DA). Then, we match each firm-year observation with all other firms in the same industry, and year, and with the closest ROA. We define the discretionary accruals for firm  $i$  in year  $t$  as the discretionary accrual minus the discretionary accrual of the matched firm sample.

Next, we employ the following Model (6) to examine whether firms conceal earnings through negative earnings management after the listing:

$$\begin{aligned}
EM_{i,t} = & \alpha_0 + \alpha_1 Fortune_{i,t} + \alpha_2 Listed_{i,t} + \alpha_3 Fortune_{i,t} \times Listed_{i,t} \\
& + \alpha_4 Size_{i,t} + \alpha_5 Leverage_{i,t} + \alpha_6 Growth_{i,t} + \alpha_7 ROA_{i,t} + \alpha_8 CtrlRight_{i,t} \\
& + \alpha_9 Loss_{i,t} + \alpha_{10} Issue_{i,t} + \varepsilon_{i,t}
\end{aligned} \tag{6}$$

In the above model,  $EM$  measures the extent of earnings management, which is defined as the Modified-Jones model performance matched discretionary accruals (Kothari et al., 2005). All other variables are as previous defined. We also include year and industry dummies to control for time and industry-specific factors.

Table 7 presents the results for the effects of the *Rich List* on the earnings management. Panel A reports the descriptive statistics of  $EM$  including PRE-Listed and POST-Listed period comparisons<sup>15</sup>. The mean of  $EM$  is significantly lower in the POST-Listed period than in the PRE-Listed period for the treatment sample (with a  $p$ -value of 0.0163), while it is insignificant for the control sample. Moreover, the mean of  $EM$  in the POST-Listed period are negative. The preliminary evidence supports the argument that the affiliated companies tend to engage in negative earnings management after their controlling shareholders are listed on the *Rich List*.

Panel B reports the regression results. We find that the coefficients on the  $Fortune \times Listed$  are significantly negative in columns (1) and (2) (with coefficients of -0.0314 and -0.0347, respectively, and  $t$ -statistics of -2.10 and -2.32, respectively), suggesting that the wealthy entrepreneurs on the *Rich List* tend to conceal their wealth through negative earnings management to reduce the scrutiny from the public and the media. Consistent with the studies of Chen and Yuan (2004) and Liu and Lu (2007), we find that the coefficient on  $Issue$  is significantly negative, suggesting that the listed firms have strong incentives to manage earnings upward to meet the regulatory requirements.

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<sup>15</sup> The main reason for the decrease in the PRE-Listed period sample is that the Chinese listed companies only began to disclose cash flow statements since 1998, and these statements are needed to estimate discretionary accruals. Therefore, we start the sample in 1998 for the earnings management tests. For other Difference-in-Difference tests, the first year of PRE-Listed period is 1996, as the first event year is 1999.



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Insert Table 7 here

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#### ***4.7 The Effect of Fairness***

Alesina and Angeletos (2005) show that people tolerate inequality that derives from innate ability and effort, but are averse to inequality arising from connections or corruption. We test whether investors are more resentful towards wealthy entrepreneurs who enter into rent-seeking industries. In China, entrepreneurs usually need to build political connections or bribe government officials to enter into highly regulated industries where they can gain exorbitant profits (Hu and Shi, 2008; Luo and Liu, 2009). We divide the sample into two groups: firms involved in the mining, public utilities, financial, or real estate industries (the rent-seeking industries), and those which are not. Panel A of Table 8 shows that the mean CARs for firms that are in rent-seeking industries are significantly negative for the windows (-1, 1), (-2, 2), and (-10, 10) (the mean values are -1.244%, -1.553%, and -3.432%, respectively), while the CARs are not significant for firms that are not in rent-seeking industries. See Figure 2-1. We also report the Schipper and Thompson (1983) regression results. We find a significantly negative event-day effect for the firms in rent-seeking industries. The finding is consistent with our conjecture that people are concerned about whether an entrepreneur's great wealth is derived from innate abilities or whether it is derived from political connections and-or bribery. People might be impressed by the former but are disgusted with the latter.

To test firms' long-term market performance after their controlling shareholders have been included on the *Rich List* and how the government reacts towards the listing, we redo regression Models (2) and (3) by partitioning the sample based on whether or not a firm is in a rent-seeking industry. Table 8, Panel B, columns (1) and (2) present the results of Model (2) for firms' long-term market performance. We find the coefficient on *Listed* for the rent-seeking sample is -0.44, and is statistically significant ( $t$ -stat. = -2.36), while that

for the non-rent-seeking sample is -0.24, but is not significant ( $t$ -stat. = -1.43). This implies that the long-term detrimental impact of inclusion on the *Rich List* is more pronounced for the affiliated firms in rent-seeking industries. Similarly, Table 8, Panel C, columns (1) and (2), report the results of Model (3) for the government subsidies. We find that the coefficient on *Fortune*×*Listed* is significantly negative for rent-seeking firms (coeff. = -0.71,  $t$ -stat. = -2.98), while that for the non-rent-seeking firms is not significant (coeff. = 0.17,  $t$ -stat. = 0.83). This indicates that the government tends to grant fewer subsidies to rent-seeking firms after their controlling shareholders are included on the *Rich List*. Table 8, Panel D, columns (1) and (2) report the results of Model (6) for earnings management. We find that the coefficient on *Fortune*×*Listed* is significantly negative for rent-seeking firms (coeff. = -0.045,  $t$ -stat. = -2.29), while that for non-rent-seeking firms is not significant (coeff. = -0.025,  $t$ -stat. = -1.08). This indicates that wealthy entrepreneurs from a rent-seeking industry tend to conceal their wealth through negative earnings management to reduce the scrutiny from the public and the media.

Overall, these results are consistent with people having negative views towards those on the *Rich List*, as they feel many of the wealthy have used *guanxi* or official connections to enhance their wealth. Moreover, the government stops offering its helping hand to firms after their controlling shareholders are included on the list. This implies that people consider inequality originating in corruption and rent seeking more unfair than inequality originating from productive effort and market competition.

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Insert Table 8 here

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#### **4.8 Strategic Philanthropy**

In order to remedy the negative image of appearing on the *Rich List*, wealthy entrepreneurs can engage in strategic philanthropy. Charitable contributions can raise a company's reputation and image, enhance customer loyalty, and lead to more lenient

treatment by regulators or government officials. A firm's investments in philanthropy can help to maintain valuable goodwill that offsets or ameliorates negative publicity (Barnett and Salomon, 2006). This is especially likely for the *Rich List* entrepreneurs in an environment of resentment against the rich. The *Hurun Rich List* also publishes a list of China's leading philanthropists each year. We partition the full sample based on whether the entrepreneurs are also included on the *Philanthropist List*. Specifically, we identify firms with entrepreneurs listed on the *Philanthropist List* as the "High Donation" group, otherwise they are classified as the "Low Donation" group. We therefore reexamine the investors and government reactions to an entrepreneur's inclusion on the *Rich List*. Panel A of Table 9 shows that the CAR for window [-10, 10] for the firms affiliated with the high and low donation groups are -0.44% and -2.23%, respectively. See Figure 2-2. The Schipper and Thompson (1983) results provide similar conclusions. These findings imply that public donations can enhance a firm's reputation and public image, leading to more favorable treatment from the market. To obtain further evidence on the mitigating effect of philanthropy, we conduct analyses of long-term market performance by partitioning the sample based on charitable donations. Panel B of Table 9 presents the results. We find the coefficient on *Fortune*×*Listed* for the low-donation sample is -0.436, and is statistically significant ( $t$ -stat. = -3.01), while that for the high-donation sample is -0.069, but is not significant ( $t$ -stat. = -0.26). This implies that the long-term detrimental impact of inclusion on the *Rich List* is more pronounced for the affiliated firms with low donations. Table 9, Panel C, reports the results of Model (3) for the government subsidies. We find that the coefficient on *Fortune*×*Listed* is significantly negative for low-donation firms (coeff. = -0.48,  $t$ -stat. = -2.53), while that for high donation firms is not significant (coeff. = 0.14,  $t$ -stat. = 0.66). This indicates that the government tends to grant fewer subsidies to low-donation firms after their controlling shareholders are included on the *Rich List*. Table 9, Panel D reports the results of Model (6) for earnings management. We find that the coefficient on *Fortune*×*Listed* is significantly negative for low-donation firms (coeff. = -0.038,  $t$ -stat. = -2.19), while that for high-donation firms is not significant (coeff. = -0.021,

$t$ -stat. = -0.68). This indicates that wealthy entrepreneurs with low-donations try to conceal their wealth through negative earnings management in order to reduce scrutiny from the public and the media. In sum we find that the firms affiliated with wealthy business people who engage in strategic philanthropy to enhance their reputation and image, do not suffer reduced long term valuations, nor do they suffer reduced government subsidies and nor do they try to conceal their wealth via earnings management. Thus, investors and the government discriminate between the rich and miserly on the one hand and the rich and generous on the other.

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Insert Table 9 here

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## 5. Conclusion

Chinese people are heavily influenced by China's two thousand-year old Confucian ideology and the recent experience of living under socialist rules. Under these influences, the Chinese people have developed preferences for equality and a distaste for those with great wealth. This paper explores the reactions of investors and governments to the publication of the *Rich List*, which publicizes the names of the 100 richest business people each year, to study the impact of egalitarianism in China. We find that, when the *Rich List* is announced, investors react negatively to the companies controlled by the *Rich List* entrepreneurs. In addition, the market values of these companies drop significantly in the following three years, which indicates that investors perceive inclusion in the *Rich List* as a form of bad news. Second, under public pressure, the government tends to scrutinize the *Rich List* entrepreneurs and their affiliated companies more closely. We find that, after being included on the list, entrepreneurs are far more likely to be investigated, arrested and charged compared to other private entrepreneurs. Moreover, the listed entrepreneurs are more likely to conceal profits through negative earnings management after being listed. We also find that the firms controlled by *Rich List* entrepreneurs that are involved in

rent-seeking industries and have a poor or undistinguished public image tend to experience more negative consequences. This is consistent with the fairness concept that the rich who benefit from political connections or rent-seeking are treated differently than those who rely on their talent and innovation. We find that wealthy entrepreneurs can engage in strategic philanthropy to gain acceptance from stakeholders and government officials.

Confucianism lauds humbleness and derides undeserving conspicuous wealth. In China, this translates to negative stock returns and unfavorable government actions on listed firms owned by very rich businessmen. These reactions are mitigated if a businessman's wealth is credited to hard work and ingenuity rather than having political connections or corrupt behaviors. Similarly, the adverse reactions to being conspicuously rich are mitigated if an entrepreneur's firm engages in significant philanthropy. As a consequence of Confucianism, rich Chinese businessmen tend to shun the spot light and this contrasts with the celebrity lifestyles and publicity-seeking behaviors of some Western billionaires.

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**TABLE 1**  
*Sample Selection and Yearly Distribution*

<b>Panel A: Sample Selection Process</b>						
Companies listed on the Shanghai or Shenzhen Stock Exchanges in China which are directly or indirectly controlled by the top 100 entrepreneurs on the <i>Hurun Rich List</i> from 1999 to 2009. If an individual appears on the <i>Rich List</i> in several years we simply use the first year they appear in the list.						114
-- Exclude companies with insufficient financial information on the Pre- and Post-Listed periods in the China Stock Market and Accounting Research (CSMAR) database.						(11)
-- Exclude companies with insufficient or missing return data during the event period.						(4)
-- Exclude companies in the financial industry.						(2)
Final sample						97
<b>Panel B: Sample Distribution by Year</b>						
Year	1999	2000	2001	2002	2003	2004
Num. of Firms	8	8	17	7	16	10
(%)	(8.25%)	(8.25%)	(17.53%)	(7.22%)	(16.49%)	(10.31%)
Year	2005	2006	2007	2008	2009	Total
Num. of Firms	12	9	5	3	2	97
(%)	(12.37%)	(9.28%)	(5.15%)	(3.09%)	(2.06%)	(100.0%)

**TABLE 2**  
*Market Reaction to the Announcement of the Rich List*

<b>Panel A: Descriptive Statistics of Cumulative Abnormal Returns</b>			
	days(-1, 1)	days(-2, 2)	days(-10, 10)
Mean CAR	-0.585%	-0.772%	-1.825%
( <i>t</i> -stat.)	(-1.74)	(-1.77)	(-1.68)
[ <i>p</i> -value]	[0.0854]	[0.0798]	[0.0960]
<b>Panel B: Schipper and Thompson (1983) Regressions:</b>			
$R_{p,t} = \alpha + \beta R_{m,t} + \sum \delta_k Event_{k,t} + \varepsilon_t$			
Dependent Variable: $R_p$	days(-1, 1)	days(-2, 2)	days(-10, 10)
	Coeff./ ( <i>t</i> -stat.)	Coeff./ ( <i>t</i> -stat.)	Coeff./ ( <i>t</i> -stat.)
Constant	0.0003 (1.55)	0.0002 (1.50)	0.0004** (2.38)
$R_m$	0.9733*** (107.54)	0.9733*** (107.44)	0.9729*** (107.63)
Event	-0.0034** (-2.27)	-0.0017 (-1.45)	-0.0022*** (-3.83)
N	2,654	2,654	2,654
Adj- $R^2$	0.8136	0.8134	0.8143
<b>Panel C: Buy-and-hold Abnormal Returns</b>			
	BHAR-12	BHAR-24	BHAR-36
Mean BHAR	-7.92%	-15.36%	-18.53%
( <i>t</i> -stat.)	(-2.20)	(-2.03)	(-1.74)
[ <i>p</i> -value]	[0.0303]	[0.0452]	[0.0846]

Panel A reports the descriptive statistics of the CARs around the announcement date of the *Rich List* for the windows (-1, 1), (-2, 2), and (-10, 10), respectively. We set the first day following the announcement of the *Rich List* as the event day, and calculate CARs using the market model with the value-weighted index as market return and the estimation period is 200 days before day -10. Firms must have returns for at least 90 of 200 trading days to be included in the sample. The *t*-statistics are reported in parentheses, and the *p*-values are reported in brackets. Panel B reports the Schipper and Thompson (1983) regression results for the firms that included in the *Rich List*. Observations are the daily portfolios of the treatment sample for the 2,654 trading days from January 1, 1999 to December 31, 2009.  $R_p$  equals the daily return to an equally-weighted portfolio of the treatment sample.  $R_m$  equals the daily market return. *Event* equals one for the days (-1, 1), (-2, 2) and (-10, 10) around the date when the *Rich List* announced, and zero otherwise. The  $\delta_k$  coefficient represents the “shift in mean excess return” associated with the event (Schipper and Thompson, 1983). The *t*-statistics using Huber-White standard errors are reported in parentheses. \*, \*\*, \*\*\* indicate significance at the 10%, 5%, and 1% levels (two-tailed), respectively. Panel

C reports the buy-and-hold returns for 12 months, 24 months and 36 months. The buy-and-hold returns are estimated from the one month after the *Rich List* announcement.

**TABLE 3**  
*Descriptive Statistics for the Treatment and Control Samples*

Variables	(1) Treatment Sample						(2) Control Sample						<i>t</i> -test of diff.	Wilcoxon test of
	N	Mean	Std.	Q1	Median	Q3	N	Mean	Std.	Q1	Median	Q3	in mean [ <i>p</i> -value]	diff. in median [ <i>p</i> -value]
Listed	553	0.5244	0.4999	0.0000	1.0000	1.0000	553	0.5244	0.4999	0.0000	1.0000	1.0000	-	-
Tobin's Q	553	2.5207	1.5411	1.4129	1.9612	3.1475	553	2.5994	1.5880	1.4527	2.1150	3.2076	[0.4030]	[0.3296]
Subsidy	553	0.6876	1.5989	0.0000	0.0436	0.4691	553	0.6176	1.3928	0.0000	0.0268	0.5238	[0.4376]	[0.4456]
EM	538	-0.0045	0.1229	-0.0793	-0.0023	0.0740	538	0.0025	0.1243	-0.0739	0.0065	0.0769	[0.3578]	[0.2438]
Size	553	21.013	0.8879	20.452	20.966	21.576	553	20.817	0.8616	20.196	20.763	21.423	[0.0002]	[0.0004]
Leverage	553	0.5082	0.2390	0.3632	0.5131	0.6452	553	0.5344	0.2930	0.3481	0.5013	0.6406	[0.1037]	[0.9559]
Growth	553	0.2264	0.4406	-0.0049	0.1725	0.4035	553	0.1535	0.4088	-0.0665	0.1065	0.2956	[0.0044]	[0.0002]
ROA	553	0.0197	0.0956	0.0104	0.0357	0.0666	553	0.0069	0.1001	0.0052	0.0301	0.0538	[0.0302]	[0.0012]
CtrlRight	553	0.3685	0.1538	0.2615	0.2990	0.4876	553	0.3410	0.1417	0.2325	0.2990	0.4433	[0.0020]	[0.0119]
Loss	553	0.0325	0.1776	0.0000	0.0000	0.0000	553	0.0470	0.2119	0.0000	0.0000	0.0000	[0.2188]	[0.2187]
Issue	553	0.0958	0.2946	0.0000	0.0000	0.0000	553	0.1121	0.3158	0.0000	0.0000	0.0000	[0.3757]	[0.3756]
FisDef	553	6.3984	0.7434	5.9535	6.2820	6.8463	553	6.2935	0.7349	5.8738	6.2311	6.6841	[0.0185]	[0.0090]

The table provides descriptive statistics for the treatment and control samples. *Listed* is an indicator variable that equals one for the “Post-Listed” period (years T+1, T+2, and T+3), and zero for the “Pre-Listed” period (years T-1, T-2, and T-3). *Tobin's Q* equals [(Total Assets – Book Equity) + Market Value of Equity] / Total Assets, which is used to measure firm value. *Subsidy* measures government assistance to a company, defined as the subsidy received from the government scaled by total sales (×100). *EM* measures the extent of earnings management, which is defined as the Modified-Jones model performance matched discretionary accruals. *Size* is the natural logarithm of a company's total assets at the end of the fiscal year. *Leverage* is the debt ratio, which is defined as the ratio of total debt divided by total assets at the end of the fiscal year. *Growth* is a firm's two-year sales growth rate, which is defined as the geometric mean of sales growth in the past two years. *ROA* is return on assets calculated as net income scaled by total assets at the end of the fiscal year. *CtrlRight* is the ownership rights owned by the controlling shareholders. *Loss* is a dummy variable, which equals one if a firm's ROE is in the range [0, 1%], and zero otherwise. *Issue* is a dummy variable, which equals one if a firm's ROE just qualifies for a rights issue (10-11% for 1996-1998; 6-7% or 10-11% for 1999-2000; 6-7% for 2001; 6-7% or 10-11% for 2002-2005; 6-7% afterwards), and zero otherwise. *FisDef* is the fiscal deficit per capita in the region.

**TABLE 4**  
*The Effects of the Rich List on the Long-term Market Performance*

<b>Panel A: Descriptive Statistics of Tobin's Q</b>				
Period	(1) Treatment Sample		(2) Control Sample	
	N	Mean	N	Mean
Pre-Listed	263	2.8705	263	2.6537
Post-Listed	290	2.2035	290	2.5502
<i>t-stat./p-values for :</i>		(5.15)		(0.77)
<i>t-test of difference in mean</i>		[<0.0001]		[0.4393]
<b>Panel B: Regression Results</b>				
Dependent Variable: Tobin's Q	(1)		(2)	
	Coeff.	( <i>t-stat.</i> )	Coeff.	( <i>t-stat.</i> )
Constant	2.2371 <sup>***</sup>	(5.43)	20.100 <sup>***</sup>	(19.02)
Fortune	0.2168 <sup>**</sup>	(2.07)	0.2722 <sup>***</sup>	(3.06)
Listed	0.3360 <sup>***</sup>	(2.83)	0.1889 <sup>**</sup>	(2.14)
<b>Fortune × Listed</b>	<b>-0.5635<sup>***</sup></b>	<b>(-3.70)</b>	<b>-0.3365<sup>***</sup></b>	<b>(-2.67)</b>
Size			-0.9062 <sup>***</sup>	(-18.98)
Leverage			1.2354 <sup>***</sup>	(6.63)
Growth			0.0143	(0.16)
ROA			2.5442 <sup>***</sup>	(5.02)
CtrlRight			0.0565	(0.25)
N		1,106		1,106
Adj-R <sup>2</sup>		0.3381		0.5478

The table presents the results on whether being listed on the *Rich List* has a negative effect on the long-term market performance of affiliated companies. Panel A reports the descriptive statistics of *Tobin's Q*. Panel B reports the regression results of using *Tobin's Q* as the dependent variable. *Fortune* is an indicator variable set to one if the firm belongs to the treatment sample, and zero if it belongs to the control sample. Other variables are defined as in Table 3. For all regressions, we also control for industry and year dummies. The *t*-statistics using Huber-White standard errors are reported in parentheses. \*, \*\*, \*\*\* indicate significance at the 10%, 5%, and 1% levels (two-tailed), respectively.

**TABLE 5**  
*The Effects of the Rich List on the Government Subsidy*

<b>Panel A: Descriptive Statistics of Government Subsidy</b>				
Period	(1) Treatment Sample		(2) Control Sample	
	N	Mean	N	Mean
Pre-Listed	263	0.8179	263	0.5493
Post-Listed	290	0.5695	290	0.6796
<i>t-stat./p-values for :</i>		(1.78)		(-1.12)
<i>t-test of difference in mean</i>		[0.0757]		[0.2641]
<b>Panel B: Regression Results</b>				
Dependent Variable: Subsidy	(1)		(2)	
	Coeff.	( <i>t-stat.</i> )	Coeff.	( <i>t-stat.</i> )
Constant	0.8019 <sup>*</sup>	(1.70)	1.6320	(1.15)
Fortune	0.2686 <sup>*</sup>	(1.96)	0.2042 <sup>*</sup>	(1.69)
Listed	0.2296 <sup>*</sup>	(1.74)	0.1829 <sup>*</sup>	(1.67)
<b>Fortune × Listed</b>	<b>-0.3787<sup>**</sup></b>	<b>(-2.14)</b>	<b>-0.3275<sup>**</sup></b>	<b>(-2.12)</b>
Size			-0.1268 <sup>**</sup>	(-1.98)
Leverage			0.3833	(1.15)
Growth			-0.3181 <sup>***</sup>	(-2.85)
ROA			2.0462 <sup>***</sup>	(2.80)
CtrlRight			0.1499	(0.51)
Loss			-0.0045	(-0.03)
Issue			0.0734	(0.64)
FisDef			0.2051 <sup>***</sup>	(2.85)
Lag(Subsidy)			0.3386 <sup>***</sup>	(6.21)
N	1,106		1,106	
Adj-R <sup>2</sup>	0.0514		0.2265	

The table presents the results on whether firms receive less government subsidy after their ultimate shareholders are listed on the *Rich List*. Panel A reports the descriptive statistics of *Subsidy*. Panel B reports the regression results of using *Subsidy* as the dependent variable. *Fortune* is an indicator variable set to one if the firm belongs to the treatment sample, and zero if it belongs to the control sample. Other variables are defined as in Table 3. For all regressions, we also control for industry and year dummies. The *t*-statistics using Huber-White standard errors are reported in parentheses. \*, \*\*, \*\*\* indicate significance at the 10%, 5%, and 1% levels (two-tailed), respectively.

**TABLE 6**  
*The Effects of the Rich List on the Entrepreneurs' Legal Risk*

<b>Panel A: Percent of Entrepreneur-level Litigation</b>						
Post-Listed Periods	Treatment Sample	Control Sample	<i>t</i> -test of Difference in Mean			
			( <i>t</i> -stat.)	[ <i>p</i> -value]		
Post 1-year	2.06% ( 2/97 )	1.03% ( 1/97 )	(0.58)	[0.5631]		
Post 3-years	19.59% ( 19/97 )	2.06% ( 2/97 )	(4.07)	[<0.0001]		
Post 5-years	24.74% ( 24/97 )	5.15% ( 5/97 )	(3.96)	[0.0001]		

<b>Panel B: Logit Regression Results</b>						
Variables	(1) Post 1-year		(2) Post 3-years		(3) Post 5-years	
	Coeff.	( <i>z</i> -stat.)	Coeff.	( <i>z</i> -stat.)	Coeff.	( <i>z</i> -stat.)
Constant	-23.918***	(-3.28)	-17.520**	(-2.31)	-10.207*	(-1.78)
<b>Fortune</b>	<b>1.8411**</b>	<b>(2.24)</b>	<b>3.6778***</b>	<b>(2.67)</b>	<b>2.6158***</b>	<b>(3.44)</b>
Size	0.6669	(1.57)	0.6151*	(1.72)	0.3538	(1.24)
Leverage	2.8991*	(1.65)	1.2784	(1.08)	1.0995	(0.87)
Growth	0.8259	(0.99)	-0.2432	(-0.32)	-0.3789	(-0.60)
ROA	-11.004***	(-2.64)	-7.8422**	(-2.44)	-6.3563***	(-2.61)
CtrlRight	4.7296	(0.98)	-3.3236	(-1.55)	-4.0568**	(-2.08)
N	194		194		194	
Pseudo-R <sup>2</sup>	0.2828		0.2963		0.2554	
Wald Chi <sup>2</sup>	37.12		17.46		27.74	

The table presents the results on whether listed entrepreneurs are more likely to be investigated, arrested or charged after being included on the *Rich List*. We hand collect the information on whether the entrepreneur is charged, investigated or arrested mainly through searching “name of the entrepreneur plus arrested”, “name of the entrepreneur plus detention”, “name of the entrepreneur plus investigation” and “name of the entrepreneur plus penalty” from “www.google.com” and “www.baidu.com”. *Litigation* is a dummy variable, which equals one if the entrepreneur is investigated, arrested or charged, and zero otherwise. Panel A reports the descriptive statistics of entrepreneur-level litigations for the one-year, three-years and five-years subsequent to the listing year (the T year), respectively. Panel B reports the Logit regression results of using *Litigation* as the dependent variable. The independent variables are measured in the listing year. *Fortune* is an indicator variable set to one if the firm belongs to the treatment sample, and zero if it belongs to the control sample. Other variables are defined as in Table 3. The *z*-statistics using Huber-White standard errors are reported in parentheses. \*, \*\*, \*\*\* indicate significance at the 10%, 5%, and 1% levels (two-tailed), respectively.

**TABLE 7**  
*The Effects of the Rich List on Earnings Management*

<b>Panel A: Descriptive Statistics of Earnings Management</b>				
Period	(1) Treatment Sample		(2) Control Sample	
	N	Mean	N	Mean
Pre-Listed	248	0.0093	248	-0.0007
Post-Listed	290	-0.0162	290	0.0052
<i>t-stat./p-values for :</i>		(2.41)		(-0.55)
<i>t-test of difference in mean</i>		[0.0163]		[0.5831]
<b>Panel B: Regression Results</b>				
Dependent Variable: EM	(1)		(2)	
	Coeff.	( <i>t-stat.</i> )	Coeff.	( <i>t-stat.</i> )
Constant	0.0267	(0.59)	-0.1286	(-1.02)
Fortune	0.0100	(0.92)	0.0094	(0.87)
Listed	0.0001	(0.01)	0.0048	(0.39)
<b>Fortune × Listed</b>	<b>-0.0314**</b>	<b>(-2.10)</b>	<b>-0.0347**</b>	<b>(-2.32)</b>
Size			0.0078	(1.42)
Leverage			-0.0342*	(-1.72)
Growth			-0.0085	(-0.75)
ROA			0.0098	(0.18)
CtrlRight			0.0039	(0.14)
Loss			-0.0025	(-0.13)
Issue			-0.0335***	(-2.83)
N		1,076		1,076
Adj-R <sup>2</sup>		0.0515		0.0648

The table presents the results on whether firms controlled by listed entrepreneurs conceal earnings through earnings management after being listed on the *Rich List*. Panel A reports the descriptive statistics of *EM*. Panel B reports the regression results of using *EM* as the dependent variable. *Fortune* is an indicator variable set to one if the firm belongs to the treatment sample, and zero if it belongs to the control sample. Other variables are defined as in Table 3. For all regressions, we also control for industry and year dummies. The *t*-statistics using Huber-White standard errors are reported in parentheses. \*, \*\*, \*\*\* indicate significance at the 10%, 5%, and 1% levels (two-tailed), respectively.



**TABLE 8**

*The Effects of Rent Seeking on the Economic Consequences of Inclusion on the Rich List*

**Panel A: The effects of rent seeking on the market reaction towards inclusion on the Rich List**

*Descriptive Statistics of the CARs :*

	(1) Non-Rent-Seeking (N=50)			(2) Rent-Seeking (N=47)		
	days(-1,1)	days(-2,2)	days(-10,10)	days(-1,1)	days(-2,2)	days(-10,10)
Mean CAR	0.035%	-0.038%	-0.032%	-1.244%	-1.553%	-3.432%
( <i>t</i> -stat.)	(0.08)	(-0.08)	(-0.23)	(-2.56)	(-2.09)	(-2.06)
[ <i>p</i> -value]	[0.9380]	[0.9355]	[0.8221]	[0.0139]	[0.0418]	[0.0446]

*Schipper and Thompson (1983) Regressions :*

	days(-1,1)	days(-2,2)	days(-10,10)	days(-1,1)	days(-2,2)	days(-10,10)
Constant	0.0003 (1.55)	0.0002 (1.22)	0.0004** (2.06)	0.0003 (1.55)	0.0003 (1.53)	0.0004** (2.12)
R <sub>m</sub>	0.9732*** (102.17)	0.9733*** (102.08)	0.9728*** (102.26)	0.9713*** (89.58)	0.9711*** (89.49)	0.9710*** (89.61)
Event	-0.0025 (-1.56)	-0.0010 (-0.85)	-0.0003 (-0.36)	-0.0043** (-2.43)	-0.0025* (-1.83)	-0.0041*** (-3.04)
N	2,654	2,654	2,654	2,654	2,654	2,654
Adj-R <sup>2</sup>	0.7976	0.7973	0.7981	0.7519	0.7517	0.7522

**Panel B: The effects of rent seeking on the long-term performance towards inclusion on the Rich List**

Dependent Variable:	(1) Non-Rent-Seeking		(2) Rent-Seeking	
	Coeff.	( <i>t</i> -stat.)	Coeff.	( <i>t</i> -stat.)
Tobin's Q				
Constant	21.857***	(14.27)	18.130***	(13.23)
Fortune	0.3066**	(2.35)	0.2448**	(1.99)
Listed	0.1771	(1.49)	0.3245**	(2.26)
<b>Fortune × Listed</b>	<b>-0.2394</b>	<b>(-1.43)</b>	<b>-0.4386**</b>	<b>(-2.36)</b>
Size	-0.9951***	(-13.91)	-0.7855***	(-12.24)
Leverage	1.2349***	(4.43)	1.1615***	(4.46)
Growth	0.0981	(0.83)	-0.0856	(-0.68)
ROA	2.3539***	(3.29)	2.5642***	(3.44)
CtrlRight	0.9867***	(2.84)	-0.5225*	(-1.75)
N		562		544
Adj-R <sup>2</sup>		0.5562		0.5644

**Panel C: The effects of rent seeking on the government's reaction towards inclusion on the *Rich List***

Dependent Variable:	(1) Non-Rent-Seeking		(2) Rent-Seeking	
	Coeff.	(t-stat.)	Coeff.	(t-stat.)
Subsidy				
Constant	4.0155*	(1.87)	-0.7356	(-0.36)
Fortune	-0.2075	(-1.37)	0.5421***	(2.72)
Listed	-0.0416	(-0.27)	0.2969*	(1.90)
<b>Fortune × Listed</b>	<b>0.1712</b>	<b>(0.83)</b>	<b>-0.7075***</b>	<b>(-2.98)</b>
Size	-0.1867*	(-1.92)	-0.0915	(-1.11)
Leverage	1.0525*	(1.74)	-0.0514	(-0.16)
Growth	-0.2182	(-1.46)	-0.3948**	(-2.35)
ROA	2.7592**	(2.50)	1.4042	(1.51)
CtrlRight	0.2006	(0.46)	0.1922	(0.46)
Loss	-0.0027	(-0.01)	-0.0639	(-0.26)
Issue	0.0839	(0.50)	-0.0239	(-0.15)
FisDef	-0.0671	(-0.66)	0.3766***	(3.04)
Lag(Subsidy)	0.2286***	(3.32)	0.3830***	(4.93)
N		562		544
Adj-R <sup>2</sup>		0.1257		0.3313

**Panel D: The effects of rent seeking on the entrepreneurs' reactions towards inclusion on the *Rich List***

Dependent Variable:	(1) Non-Rent-Seeking		(2) Rent-Seeking	
	Coeff.	(t-stat.)	Coeff.	(t-stat.)
EM				
Constant	-0.0473	(-0.23)	-0.4184**	(-2.36)
Fortune	0.0105	(0.64)	0.0075	(0.53)
Listed	0.0031	(0.15)	0.0079	(0.49)
<b>Fortune × Listed</b>	<b>-0.0250</b>	<b>(-1.08)</b>	<b>-0.0452**</b>	<b>(-2.29)</b>
Size	0.0054	(0.68)	0.0113	(1.48)
Leverage	-0.0032	(-0.11)	-0.0731***	(-2.66)
Growth	-0.0091	(-0.61)	-0.0070	(-0.40)
ROA	0.0883	(1.08)	-0.0685	(-0.93)
CtrlRight	0.0047	(0.11)	0.0087	(0.25)
Loss	-0.0115	(-0.33)	0.0013	(0.05)
Issue	-0.0253	(-1.27)	-0.0456***	(-3.07)
N		538		538
Adj-R <sup>2</sup>		0.0731		0.1094

The table presents the results of the effect of rent seeking on the economic consequences of inclusion on the *Rich List*. We partition the full sample based on whether the entrepreneurs are involved in

rent-seeking industries, and redo the analyses similar to Tables 2, 4, 5, and 7 for the sub-samples. Specifically, we classify firms involved in mining, public utilities, financial, or real estate industry as the “Rent-Seeking” group, otherwise we classify them as the “Non-Rent-Seeking” group. Panel A, B, C, and D report results for the effect of rent seeking on the market reaction, long-term market performance, government’s reaction, and entrepreneurs’ reactions towards inclusion on the *Rich List*, respectively. *Fortune* is an indicator variable set to one if the firm belongs to the treatment sample, and zero if it belongs to the control sample. Other variables are defined as in Tables 2 and 3. For all regressions except Panel A, we also control for industry and year dummies. The  $p$ -values are reported in brackets, and the  $t$ -statistics using Huber-White standard errors are reported in parentheses. \*, \*\*, \*\*\* indicate significance at the 10%, 5%, and 1% levels (two-tailed), respectively.

**TABLE 9**

*The Effects of Charitable Donations on the Economic Consequences of Inclusion on the Rich List*

**Panel A: The effects of charitable donations on the market reaction towards inclusion on the Rich List**

*Descriptive Statistics of the CARs :*

	(1) High Donation (N=22)			(2) Low Donation (N=75)		
	days(-1,1)	days(-2,2)	days(-10,10)	days(-1,1)	days(-2,2)	days(-10,10)
Mean CAR	-0.306%	-0.097%	-0.440%	-0.666%	-0.970%	-2.232%
( <i>t</i> -stat.)	(-0.41)	(-0.11)	(-0.18)	(-1.76)	(-1.95)	(-1.84)
[ <i>p</i> -value]	[0.6867]	[0.9158]	[0.8577]	[0.0820]	[0.0553]	[0.0705]

*Schipper and Thompson (1983) Regressions :*

	days(-1,1)	days(-2,2)	days(-10,10)	days(-1,1)	days(-2,2)	days(-10,10)
Constant	0.0003 (1.82)	0.0004 (1.82)	0.0005** (2.45)	0.0002 (1.36)	0.0002 (1.29)	0.0004** (2.18)
R <sub>m</sub>	0.9553*** (90.56)	0.9551*** (90.48)	0.9549*** (90.61)	0.9778*** (103.28)	0.9778*** (103.19)	0.9774*** (103.41)
Event	-0.0031** (-2.00)	-0.0014 (-1.12)	-0.0002 (-0.14)	-0.0036** (-2.09)	-0.0022* (-1.68)	-0.0042*** (-3.67)
N	2,654	2,654	2,654	2,654	2,654	2,654
Adj-R <sup>2</sup>	0.7559	0.7557	0.7564	0.8010	0.8008	0.8017

**Panel B: The effects of charitable donations on the long-term performance towards inclusion on the Rich List**

Dependent Variable:	(1) High Donation		(2) Low Donation	
	Coeff.	( <i>t</i> -stat.)	Coeff.	( <i>t</i> -stat.)
Tobin's Q				
Constant	26.044***	(11.96)	18.994***	(15.26)
Fortune	0.2839	(1.32)	0.3196***	(3.15)
Listed	0.2444	(1.35)	0.2233**	(2.11)
<b>Fortune × Listed</b>	<b>-0.0685</b>	<b>(-0.26)</b>	<b>-0.4359***</b>	<b>(-3.01)</b>
Size	-1.0611***	(-10.39)	-0.8479***	(-14.95)
Leverage	0.4283	(1.03)	1.3618***	(6.62)
Growth	0.1412	(0.74)	0.0254	(0.26)
ROA	1.5993	(1.05)	2.5484***	(4.72)
CtrlRight	0.6642	(1.34)	-0.2928	(-1.07)
N		252		854
Adj-R <sup>2</sup>		0.5755		0.5457

**Panel C: The effects of charitable donations on the government's reaction towards inclusion on the Rich List**

Dependent Variable:	(1) High Donation		(2) Low Donation	
	Coeff.	(t-stat.)	Coeff.	(t-stat.)
Subsidy				
Constant	3.3508	(1.45)	0.2494	(0.15)
Fortune	-0.1196	(-0.91)	0.3216**	(2.11)
Listed	0.1231	(0.73)	0.2709*	(1.86)
<b>Fortune × Listed</b>	<b>0.1431</b>	<b>(0.66)</b>	<b>-0.4803**</b>	<b>(-2.53)</b>
Size	-0.1890*	(-1.66)	-0.0726	(-0.97)
Leverage	-0.0713	(-0.19)	0.4979	(1.34)
Growth	0.0421	(0.26)	-0.4157***	(-2.88)
ROA	-0.2358	(-0.30)	2.4241***	(2.80)
CtrlRight	0.3778	(1.16)	0.2022	(0.50)
Loss	0.2539	(1.08)	-0.0846	(-0.46)
Issue	0.3701	(1.63)	0.0005	(0.00)
FisDef	0.0913	(1.24)	0.2351**	(2.20)
Lag(Subsidy)	0.1717*	(1.75)	0.3463***	(5.94)
N		252		854
Adj-R <sup>2</sup>		0.1762		0.2354

**Panel D: The effects of charitable donations on the entrepreneurs' reactions towards inclusion on the Rich List**

Dependent Variable:	(1) High Donation		(2) Low Donation	
	Coeff.	(t-stat.)	Coeff.	(t-stat.)
EM				
Constant	-0.5187*	(-1.79)	-0.1006	(-0.65)
Fortune	-0.0095	(-0.46)	0.0154	(1.18)
Listed	-0.0041	(-0.18)	0.0091	(0.60)
<b>Fortune × Listed</b>	<b>-0.0209</b>	<b>(-0.68)</b>	<b>-0.0382**</b>	<b>(-2.19)</b>
Size	0.0129	(0.99)	0.0065	(1.00)
Leverage	-0.0673	(-1.37)	-0.0323	(-1.44)
Growth	0.0338	(1.26)	-0.0210	(-1.63)
ROA	-0.1677	(-1.22)	0.0393	(0.65)
CtrlRight	0.0489	(1.00)	-0.0047	(-0.13)
Loss	-0.0669	(-1.47)	0.0179	(0.88)
Issue	-0.0364*	(-1.74)	-0.0291**	(-2.08)
N		246		830
Adj-R <sup>2</sup>		0.1544		0.0725

The table presents the results of the effect of charitable donations on the economic consequences of inclusion on the *Rich List*. We partition the full sample based on whether the entrepreneurs are also included on the *Philanthropist List*, and redo the analyses similar to Tables 2, 4, 5 and 7 for the sub-samples. Specifically, we identify firms with entrepreneurs listed on the *Philanthropist List* as the “High Donation” group, otherwise we classify them as the “Low Donation” group. Panels A, B, C and D report results for the effect of charitable donations on the market reaction, long-term market performance, government’s reaction, and entrepreneurs’ reactions towards inclusion on the *Rich List*, respectively. *Fortune* is an indicator variable set to one if the firm belongs to the treatment sample, and zero if it belongs to the control sample. Other variables are defined as in Tables 2 and 3. For all regressions except Panel A, we also control for industry and year dummies. The  $p$ -values are reported in brackets, and the  $t$ -statistics using Huber-White standard errors are reported in parentheses. \*, \*\*, \*\*\* indicate significance at the 10%, 5%, and 1% levels (two-tailed), respectively.

*Figure 1: Market Reaction to the Announcement of Rich List*

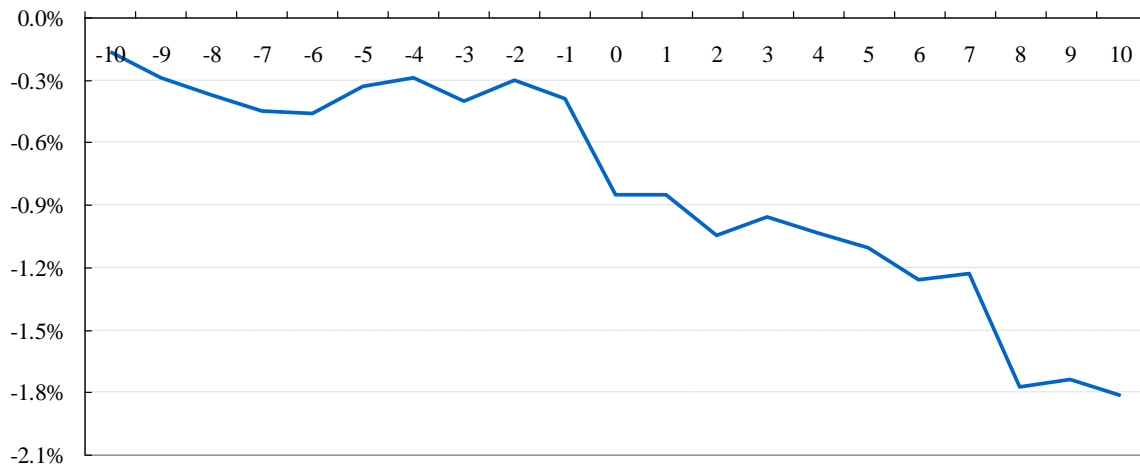


Figure 1 illustrates the CARs of the sample during the event window [-10, 10 days]. We set the first day following the announcement of the *Rich List* as the event date (day 0) and calculate CARs using the market model with the value-weighted index as market return and the estimation period is 200 days before day -10.

Figure 2-1: The Effects of Rent Seeking on the Market Reaction to the Rich List

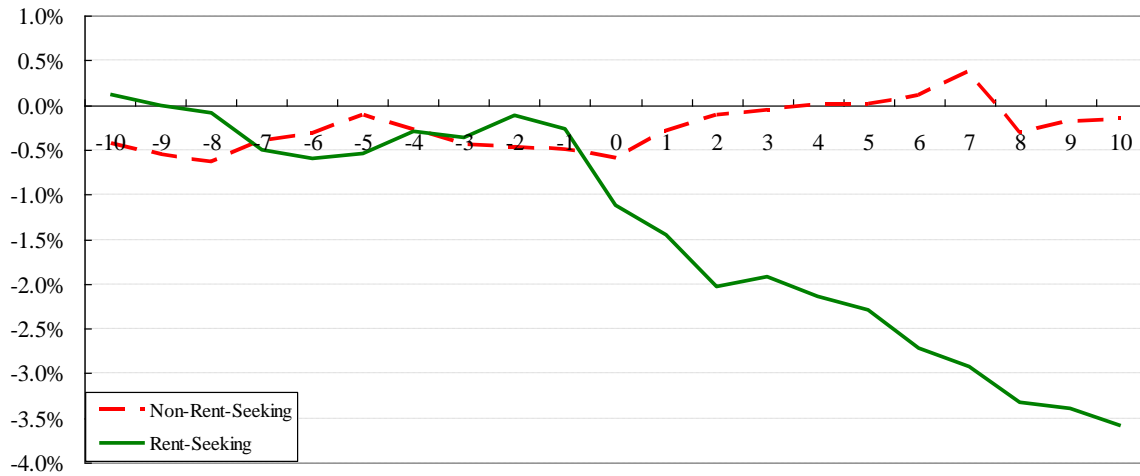


Figure 2-2: The Effects of Charitable Donations on the Market Reaction to the Rich List

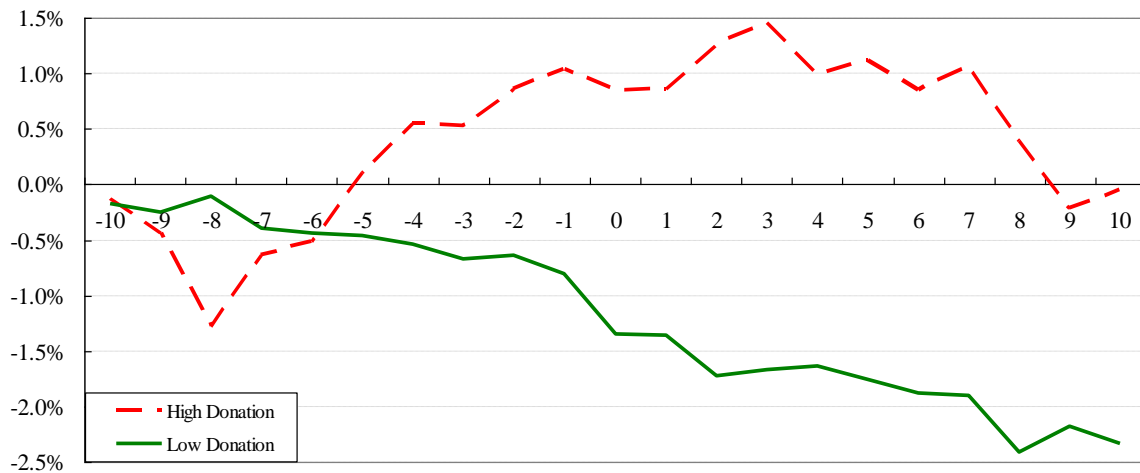


Figure 2-1 and Figure 2-2 illustrate the effects of rent seeking and charitable donations on the market reaction to the announcement of the *Rich List*, respectively. For Figure 2-1, we partition the full sample into “Rent-Seeking” and “Non-Rent-Seeking” groups based on whether the entrepreneurs are involved in rent-seeking industries. Specifically, we classify firms involved in the mining, public utilities, financial, or real estate industries as the “Rent-Seeking” group, otherwise we classify them as the “Non-Rent-Seeking” group. For Figure 2-2, we partition the full sample into “High Donation” and “Low Donation” groups based on whether the entrepreneurs are also included on the *Philanthropist List*. Specifically, we identify firms with entrepreneurs listed on the *Philanthropist List* as the “High Donation” group, otherwise we classify them as the “Low Donation” group.



**Appendix:**

*Propensity Score Matching*

**Panel A: Propensity Score Estimation Using Logit Regression:**

$$Prob(Fortune = 1) = \beta_0 + \beta_1 Size + \beta_2 Leverage + \beta_3 Growth + \beta_4 ROA + \beta_5 CtrlRight + \varepsilon$$

Dependent Variable:	Coeff.	(z-stat.)
Fortune		
Constant	-13.444***	(-4.33)
Size	0.46926***	(3.05)
Leverage	0.0185	(0.03)
Growth	0.1189	(0.39)
ROA	1.1474	(0.54)
CtrlRight	1.3575**	(2.00)
N		3,733
Pseudo-R <sup>2</sup>		0.0681
Wald-Chi <sup>2</sup>		61.30

**Panel B: Comparison between Treatment and Control Samples**

	Treatment Sample (N=97)		Control Sample (N=97)		<i>t</i> -test of diff. in mean	Wilcoxon test of diff. in median
	Mean	Median	Mean	Median	[ <i>p</i> -value]	[ <i>p</i> -value]
Size	20.852	20.888	20.760	20.782	[0.3950]	[0.2909]
Leverage	0.4769	0.4951	0.4710	0.4877	[0.8293]	[0.7932]
Growth	0.2157	0.1561	0.1802	0.1020	[0.5484]	[0.3923]
ROA	0.0285	0.0432	0.0206	0.0325	[0.4591]	[0.1456]
CtrlRight	0.3851	0.3329	0.3654	0.3361	[0.3818]	[0.5948]
Score	0.0298	0.0265	0.0276	0.0250	[0.1581]	[0.3248]

The table presents the results of propensity score estimation using logit regression. *Score* is the predicted likelihood that a company's ultimate shareholder will be included on the *Rich List* conditional on observable features. Other variables are defined as in Table 3. The *p*-values are reported in brackets, and the z-statistics are reported in parentheses. \*, \*\*, \*\*\* indicate significance at the 10%, 5%, and 1% levels (two-tailed), respectively.